

DEPARTMENT OF WATER RESOURCES

CALIFORNIA ENERGY RESOURCES SCHEDULING

P.O. BOX 219001

3310 EL CAMINO AVENUE, SUITE 120

SACRAMENTO, CA 95821-9001

(916) 574-1291



January 27, 2006

Via Facsimile and Overnight Mail

Messrs. Sheldon Shultz and
Richard Heaton
Soledad Energy, LLC
4414 South Gekeler Lane
Post Office Box 5405
Boise, Idaho 83705

Dear Messrs. Shultz and Heaton:

The California Department of Water Resources ("CDWR") references the Amended and Restated Non-Firm Energy Purchase Agreement by and between CDWR and Soledad Energy, LLC ("Soledad") dated June 27, 2002 (the "Agreement"). All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the Agreement.

Enclosed for your records is a fully executed original of the January 25, 2006 letter agreement terminating the Agreement. If you have any questions or need additional information, you may contact Chuck Toney at (916) 574-1288.

Sincerely,


Viju Patel
Acting Deputy Director

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Soledad Energy, LLC
Post Office Box 5405
4414 South Gekeler Lane
Boise, Idaho 83705

Dear Messrs. Shultz and Heaton:

The California Department of Water Resources ("CDWR") references the Amended and Restated Non-Firm Energy Purchase Agreement by and between CDWR and Soledad Energy, LLC ("Soledad") dated June 27, 2002 (the "Agreement"). All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the Agreement.

By letter dated December 6, 2005, Soledad requested an early termination of the Agreement. Since then, CDWR and Soledad have had discussions in which they have mutually agreed to terminate the Agreement on the terms and conditions specified herein.

Soledad will terminate the Agreement on or before January 31, 2006 by providing CDWR written notice forty-eight (48) hours in advance thereof. The termination payment shall be \$100,000 to be paid to CDWR by offsetting that sum against the payment to be made by CDWR to Soledad for energy delivered in the month of January 2006 pursuant to the terms and conditions of the Agreement, which are incorporated herein by reference. In the event CDWR owes less than \$100,000 to Soledad, Soledad will make payment to CDWR in an amount representing the difference between \$100,000 and the amount owed to Soledad by CDWR within five days of CDWR's invoice.

In addition, Soledad agrees that in consideration of the mutual agreements contained herein, Pacific Gas & Electric Company ("PG&E") or any PG&E affiliate, acting in its own capacity and not as CDWR's agent, will have the option of purchasing the Generating Plant under the Bargain Purchase Option described in Section 2.04(b) of the Agreement; provided, however, (1) PG&E must provide written notice to Soledad, as soon as reasonably possible but in no case later than sixty (60) days after Soledad's termination, that it intends to exercise such option; (2) the Bargain Price pursuant to Section 2.04(b) will be \$100,001, which consists of (i) one (\$1.00) dollar and (ii) out-of-pocket transaction costs which CDWR and Soledad stipulate are \$100,000; (3) in the event PG&E exercises the purchase option, Soledad shall negotiate in good faith with PG&E to reach an agreement upon such other terms and conditions that are normal and customary for transactions of this type; and (4) if these good faith negotiations do not result in an agreement within a period not to exceed ninety (90) days from the date of termination containing a mutually agreeable closing date, the Bargain Purchase Option shall terminate. Soledad acknowledges that no undepreciated capital expenditures have been made by Soledad during the Term of the Agreement for purposes of Section 2.04(b), and therefore, the Bargain Price to be paid by PG&E will not include undepreciated capital expenditures.

Soledad agrees that PG&E may have access to the Generating Plant during normal business hours with forty-eight (48) hours notice to conduct all due diligence activities, inspections, and studies as it deems necessary in PG&E's discretion, and that PG&E may examine and investigate all facts, circumstances, and matters relating to the Generating Plant which it may deem relevant to the Bargain Purchase Option, including without limitation, structural, mechanical, environmental, title, survey matters, and any other matters it deems appropriate for purposes of consummating the Bargain Purchase Option. Soledad further agrees to make available to PG&E all records, reports, and documents pertaining to the Generating Plant in Soledad's possession, custody, or control as PG&E shall reasonably require. Upon reasonable notice and at reasonable times, Soledad shall endeavor to make reasonably available to PG&E such of Soledad's then existing personnel as may be knowledgeable with respect to the condition and operation of the Generating Plant.

Soledad represents that the Generating Plant is not currently mortgaged or otherwise encumbered or pledged.

Messrs. Sheldon Shultz and Richard Heaton
January 25, 2006
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CDWR and Soledad each hereby release, acquit, and forever discharge any and all claims of any nature whatsoever they have ever had, now have, or hereafter can, shall, or may have against each other based on or arising out of or in connection with, in whole or in part, the Agreement. Upon the consummation or termination of the Bargain Purchase Option, as set forth above, neither CDWR nor Soledad shall have any further rights or obligations under the Agreement or this letter.

By signing below, Soledad acknowledges its receipt of and agreement with the terms of this letter. If you have any questions or need additional information, you may contact Chuck Toney at (916) 574-1288.

**CALIFORNIA DEPARTMENT OF WATER
RESOURCES**

with respect to the California Department of Water
Resources Electric Power Fund separate and apart
from its powers and responsibilities with respect to the
State Water Resources Development System

By: James E. Olson

Name: Viju Patel
Title: Acting Deputy Director

Date: 1/27/06

AGREED AND ACCEPTED:

Soledad Energy, LLC

By: Linda L. Yanke

Name: Linda L. Yanke
Title: Manager

Date: January 26, 2006